THE SIMPLEST STIMULUS

When Democrats and Republicans agree quickly on something, it's usually either a meaningless gesture, or a raid on the federal treasury.

The economic stimulus package agreed to by President Bush and congressional leaders will be more beneficial to politicians than it will be to our economy.

The deal -- the principal element of which is to give income tax rebates to people who pay little or no federal income tax -- is driven by fear our economy may be going into recession. Since the definition of a recession is two consecutive quarters of negative growth, we're not in one yet, and neither the Congressional Budget Office nor the Federal Reserve thinks we'll go into one this year.

But the economy is weakening, for two principal reasons.

The first is the subprime mortgage crisis. It is a product of greed and stupidity. People bought houses they couldn't afford, and lending institutions made loans to bad credit risks. Now lenders are stuck with billions of dollars of mortgages borrowers can't afford to pay, and thousands of families might lose their homes.

The subprime mortgage crisis, alas, affects far more than those whose bad judgment caused it. Because financial institutions made so many bad loans, they have less money to lend to good credit risks. The decline in home prices causes layoffs in the construction industry, which ripples throughout the economy.

Sales of single family homes declined 13 percent last year, the biggest drop since 1982, the National Association of Realtors announced Thursday (1/24). The median price for a single family home dropped 1.8 percent.

The housing bubble eventually will work itself out, as the dot.com bubble did after it burst in 2000. But there is no end in sight to the other cause of our softening economy, the ghastly sums we've been paying for imported oil.

Because oil prices have been bouncing around $100 a barrel, we saw in the last year a vast transfer of wealth from Americans to people overseas, many of them rulers of countries who wish us ill. It's no accident that the size of the stimulus package the President and Congress agreed upon is nearly identical to the amount transferred from our pockets to the coffers of the oil sheikhs.

The idea behind the stimulus package is that if people -- especially those at the lower end of the socio-economic scale -- get rebate checks, they'll spend them, propping up the economy. The idea unquestionably will be popular with voters.

The problem, as noted by economics writer Robert Samuelson, is that the rebate checks either will come too late to do much good, or won't be needed at all. Because this is income tax season -- a problem compounded by Congress' sluggishness in dealing with the alternative minimum tax -- it'll be May or June before the IRS can cut rebate checks, and autumn before whatever boost they give to the economy can be felt.

There are also inherent problems with short term stimulus packages and with giving away money to people who have not earned it, problems which only two presidential candidates -- Arizona Sen. John McCain and former New York Mayor Rudy Giuliani -- seem to have noticed.

A McCain adviser likened the stimulus package to "borrowing money from the Chinese and dropping it from helicopters."

Only long term measures which promote the growth of businesses in America can keep the economy strong, Mr. Giuliani said.

The most effective short term measure to stimulate the economy already has been taken. That was the decision of the Federal Reserve to lower a key interest rate by three quarters of a percent.

Additional short term measures should be designed to ease long term problems. One would be to suspend the 18.4 cents a gallon federal gasoline tax for a year. That would provide immediate relief to consumers, whether or not they pay income taxes.

Another would be to triple for a year the tax credits for making energy saving improvements to their homes, and for purchasing fuel efficient and alternative fuel vehicles.

But the single biggest step Congress could take to stimulate the economy in both the short and long term is to eliminate the depreciation schedule.

"We're about the only country in the world that forces companies to write off the cost of their capital assets over years, sometimes decades, instead of letting them be expensed," notes Jack Wheeler. "That's why Intel will build a chip plant in China instead of here, because in China they can write off the entire cost right away."